

CITY OF WHITTEMORE

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2019 THROUGH JUNE 30, 2020**

Table of Contents

	Page
Officials	1
Independent Accountant's Report on Applying Agreed-Upon Procedures	2-3
Detailed Recommendations	4-7

City of Whittemore

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Daniel Elbert	Mayor	November 2021
Stuart Simonson	Mayor Pro Tem	November 2021
Rodney Johnson	Council Member	November 2023
Rebecca Lancaster	Council Member	November 2023
Tim Schneider	Council Member	November 2023
Karla Walker	Council Member	November 2021
Linda Farrell	City Clerk	Indefinite
Andrea Thompson	Deputy Clerk	Indefinite

City of Whittemore



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

To the Honorable Mayor and Members of the City Council:

We have performed the procedures below, which were established at Iowa Code Chapter 11.6 to provide oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Whittemore for the period July 1, 2019 through June 30, 2020, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Whittemore's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We scanned City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2019 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We scanned determined depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.

9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. The City has no TIF.
11. We traced selected receipts to accurate accounting and consistency with the recommended COA.
12. The City has no voter approved levies.
13. We traced selected disbursements to proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. We traced transfers between funds to proper authorization and accurate accounting and determined whether proper.
15. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether proper.
16. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting findings and recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

TP Anderson & Company, PC

January 11, 2021
Humboldt, Iowa

Detailed Recommendations

City of Whittemore

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- 1) Cash – handling, reconciling and recording.
- 2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- 3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- 4) Payroll – recordkeeping, preparing and distributing.
- 5) Utilities – billing, collecting, depositing and posting.
- 6) Financial reporting – preparing and reconciling.
- 7) Journal entries – preparing and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

(B) Accounting System – Currently, the City maintains its accounting records and performs a majority of accounting functions using a manual accounting ledger system. Using a manual accounting ledger system makes the City vulnerable to inadequate internal controls that would otherwise be standard with a computerized system. This includes having an independent reviewer approve nonstandard journal entries.

Recommendation – Computerized accounting systems are a convenient way of recording, storing, analyzing and reporting financial information. Some advantages of using computerized accounting software include:

- 1) Automation – Since all the calculations are handled by the software, computerized accounting eliminates many of the processes associated with manual accounting less time-consuming. For example, once an invoice is processed for payment, it is automatically posted to the accounting ledger.
- 2) Accuracy – The accounting system is designed to be accurate to the minutest detail. Once the data is entered into the system, all of the calculations, including additions and subtractions, are done automatically by the software. The software also will alert you for instances where imbalances might exist. Because the calculations are so accurate, the financial information derived from the system is highly reliable. Additionally, budget comparisons are easily generated to ensure the City is monitoring and adjusting the budget accordingly.

City of Whittemore

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- 3) Security – The latest data can be saved and stored in offsite locations so it is safe from natural disasters or theft.

- (C) Bank Reconciliations – The cash balances of the City’s general ledger were reconciled to bank balances throughout the year. However, for the two months reviewed, bank and book balances did not properly reconcile. Variances of \$1,430 and \$823 were noted. These variances can be partially attributed to interest income not being recorded in the month it is received. In addition, the outstanding check list included a lump sum amount for long-outstanding transactions and did not contain the check number, payee and date written for each check individually.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and any variances are reviewed and resolved timely. In particular, the City should ensure interest is being recorded in the month in which it is actually received and not the month in which the statement is received. The City should also maintain a detailed list of all checks outstanding, including the check number, date written, and amount.

- (D) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

- (E) Management Financial Information – The Clerk’s financial reports to the City Council do not include comparisons to the certified budget by function.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the Clerk’s monthly financial reports to the City Council should include comparisons to the certified budget by function.

- (F) State of Iowa Revenue – During the year, there was a payment from the prior year that was recorded in the current year. There was also a LOST receipt that was posted in the wrong fund. This resulted in a total variance of \$5,321.

Recommendation – The City should establish procedures to ensure receipts are being posted to the correct fund.

- (G) Reconciliation of Utility Billings and Collections – Utility billings and collections were not reconciled throughout the year, nor were utility billings periodically reviewed and tested to ensure calculations are correct. It was also identified that meter readings were incorrect during a

City of Whittemore

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

period of transition to new meters. This lead to billing having to be manually corrected on an individual basis by the client.

Recommendation – Procedures should be established to reconcile utility billings and collections for each billing period, the necessary corrections to the utility billing software should be made, and the City Council or other independent person designated by the City Council should review the reconciliations and periodically test utility billings to ensure calculations are correct.

- (H) Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the general government function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (I) Revenue Bonds/Notes – The provisions of the water revenue bonds require sufficient monthly transfers be made to a separate water revenue bond sinking account for the purpose of making the bond principal and interest payments when due. The City has not established such an account and thus has not made the required monthly transfers to the account.

Recommendation – The City should establish a water sinking account and ensure monthly transfers are made into the account as required.

- (J) Financial Condition – At June 30, 2020, the City had a deficit balances of \$305,307 in the General Fund, \$39,023 in the Sewer Fund, \$141,795 in the Solid Waste Fund, and \$2,550 in the Special Fund.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

- (K) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires all cities to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of Treasurer of State annually. The City did not remit all outstanding obligations held for more than two years to the Office of Treasurer of State annually.

Recommendation – Outstanding obligations should be reviewed annually and amounts over two years old should be remitted to the Office of Treasurer of State annually, as required.

City of Whittemore

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (L) Special Revenue Funds – The City levied property tax for employee benefits and received local option sales tax during the year. These collections were recorded in the General Fund and no documentation is maintained to support how the funds were used or the unspent balances held for the specified purposes.

Recommendation – The City should establish a Special Revenue Fund to account for the collection and disbursement of employee benefits and local option sales tax.

- (M) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Stuart Simonson, Council member Owner of Supplies N' More	Office Supplies	\$ 434

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the City Council Member do not appear to represent a conflict of interest since total transactions were less than \$6,000 during the fiscal year.

Recommendation – The City should ensure that future transactions are monitored in order to keep related party transactions below the threshold of being considered a conflict of interest.